

# Cornerstone Strategic Index Managed Portfolios

## Portfolio changes

February 2025

In this note, we provide a short update on recent trade activity and changes to the **Cornerstone Strategic Index Managed Portfolios**.

### Summary of key changes

- Rebalanced the direct Australian equity portfolio.
- Increased portfolio allocation to global fixed income.
- Introduced the Macquarie Core Australian Equity Active ETF.
- Introduced the Macquarie Australian Small Companies Fund.
- Increased the Portfolios' Australian dollar hedging exposure.
- Portfolios affected by these changes are the **Cornerstone Strategic Index Conservative Managed Portfolio**, the **Cornerstone Strategic Index Balanced Managed Portfolio**, the **Cornerstone Strategic Index Balanced Growth Managed Portfolio**, the **Cornerstone Strategic Index Growth Managed Portfolio** and the **Cornerstone Strategic Index High Growth Managed Portfolio** (Portfolios).

### Rationale for portfolio changes

We rebalanced the direct Australian equity portfolio across all managed portfolios as part of the regular review cycle.

We also increased the Portfolios' allocation to global fixed income. Given the rise<sup>1</sup> in government bond yields through November and December, we believe global bonds have become attractive again. Further, government bonds offer diversification benefits should we see a rise in volatility this year. We increased exposure to global fixed income by buying the AMP International Fixed Interest Index Fund Hedged.

Additionally, we reduced exposure to the direct Australian equity portfolio following its recent strong performance and introduced Macquarie's Core Australian Equity Active ETF. This strategy is managed by Macquarie's Systematic Investments team and aims to outperform the S&P/ASX 300 Accumulation Index. It employs a quantitative process using over 50 alpha signals to select securities that can outperform. The portfolio is diversified, holding between 100 and 200 securities, and is constructed to minimise style and sector biases so that security selection drives performance. The strategy offers an active investment approach that is risk-controlled and repeatable. [Note: *Within the Cornerstone Strategic Index Balanced Managed Portfolio, we reduced exposure to both the direct Australian equity portfolio and the iShares Core S&P/ASX 200 ETF.*]

We also reduced exposure to the iShares S&P/ASX Small Ordinaries ETF in favour of Macquarie's Australian Small Companies Fund. This strategy uses the same investment process as the Macquarie Core Australian Equity Active ETF and applies it to listed companies outside of the 50 largest by market capitalisation. It aims to outperform the S&P/ASX Small Ordinaries Index by selecting companies with attractive fundamentals. The strategy provides diversified exposure to listed smaller companies, resulting in a market-oriented portfolio of 60 to 80 holdings.

Our decision to increase the Portfolios' Australian dollar hedging exposure follows the currency's recent sell-off. According to our valuation metrics, the Australian dollar is now looking cheap. We also believe that negative sentiment

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<sup>1</sup> Bond yields have an inverse relationship with bond prices, meaning that when yields rise, prices fall and vice versa.

toward the currency has become overdone. We increased the Portfolios' Australian dollar hedging exposure by selling unhedged global equities and buying hedged global equities.

The Portfolios' overall growth exposure was unchanged as we believe the market environment in the short to medium term will remain supportive of risk assets.

From here, we will likely maintain portfolio positioning via rebalances as the tension between slower growth and easing inflation continues.

## Specific portfolio changes

### Direct Australian equity portfolio

The direct Australian equity portfolio is rebalanced semi-annually. The purpose of rebalancing is to ensure the portfolio's holdings are in line with the underlying investment strategy. We do this by buying and/or selling shares.

As part of this latest rebalancing, we bought into the real estate, communication services and consumer staples sectors, and sold out of utilities, materials and information technology. In terms of factor exposure, the portfolio is positioned with modest overweights to low volatility, quality and value, while being underweight size and momentum.

### Portfolio rebalancing trades

	COMPANY	WEIGHT
Shares purchased	Ansell	+2.5%
	Northern Star Resources	+2.1%
	REA Group	+1.6%
	AMP	+1.5%
	Commonwealth Bank of Australia	+1.4%
	Goodman Group	+1.2%
	Aristocrat Leisure	+0.8%
	Suncorp Group	+0.5%
Shares sold	Fisher & Paykel Healthcare	-2.2%
	James Hardie Industries	-2.1%
	QBE Insurance	-2.1%
	Origin Energy	-1.7%
	Newmont Corp.	-1.3%
	Pro Medicus	-0.7%
	JB Hi-Fi	-0.7%
	Macquarie Group	-0.6%

## Changes in asset allocation (%)

ASSET CLASS	RISK PROFILE				
	CONSERVATIVE	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH
Global fixed income	-	-	+1.0	+1.0	-
Australian equities (direct Australian equity portfolio)	-	-1.0	-2.0	-2.0	-3.0
Australian equities (iShares)	-	-1.0	-	-	-
Australian equities (Macquarie)	-	+2.0	+2.0	+2.0	+3.0
Australian small companies (iShares)	-1.0	-2.0	-2.0	-2.0	-2.0
Australian small companies (Macquarie)	+1.0	+2.0	+2.0	+2.0	+2.0
Global equities (unhedged)	-1.0	-1.0	-2.0	-2.0	-2.0
Global equities (hedged)	+1.0	+1.0	+2.0	+2.0	+2.0
Cash	-	-	-1.0	-1.0	-

## Final asset class allocations after these changes (%)<sup>2</sup>

ASSET CLASS	RISK PROFILE				
	CONSERVATIVE	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH
<b>GROWTH ASSETS</b>	<b>33.5</b>	<b>53.0</b>	<b>72.7</b>	<b>90.4</b>	<b>97.9</b>
Australian equity	12.2	20.2	30.3	36.7	41.6
Global equity	15.3	27.0	34.8	47.8	44.7
Australian property	2.6	2.2	3.0	2.5	3.4
Global property	2.5	2.7	3.7	3.5	4.0
Infrastructure	0.0	0.0	0.0	0.0	4.2
Growth alternatives	0.0	0.0	0.0	0.0	0.0
Extended credit	0.9	0.9	0.9	0.0	0.0
<b>DEFENSIVE ASSETS</b>	<b>66.5</b>	<b>47.0</b>	<b>27.3</b>	<b>9.6</b>	<b>2.1</b>
Loans & absolute return credit	0.0	0.0	0.0	0.0	0.0
Australian fixed income	32.5	22.0	12.0	2.8	0.0
Global fixed income	16.3	14.2	8.5	3.3	0.0
Defensive alternatives	0.0	0.0	0.0	0.0	0.0
Short-term credit	0.0	0.0	0.0	0.0	0.0
Cash	17.8	10.7	6.8	3.5	2.1

<sup>2</sup> Asset class breakdown is based on the model and may vary slightly depending on the Platform.

## Effective date

These changes were completed on **21 January 2025**.

## Looking ahead

Over the past 12 months, equity markets have benefited from easing inflation globally, a resilient US labour market and a robust US economy, despite the Federal Reserve (Fed)'s restrictive monetary policy.

We remain cautiously optimistic about the US economic outlook. Recent data supports the view that the US economy is on track to achieve a 'soft landing', whereby the Fed returns inflation to target without triggering a recession. However, risks persist due to the potential lag effects of the Fed's previous rate hikes. This soft landing scenario aligns with expectations that 2025 will see trend-like US economic growth of around 2.0%, supported by improved fiscal and monetary policy dynamics.

If equity markets continue to rise, we may look to reduce the Portfolios' exposure to risk assets in favour of more defensive assets.

Moving forward, it's important to remember that whilst we cannot control what markets do, we can control how we react to them. The Portfolios have been constructed to respond to changing market dynamics in real time, to effectively manage risk and to take advantage of market opportunities as they arise.

Moreover, we are committed to achieving long-term outperformance for investors and remain both patient and alert to any investment opportunities.

For more information please visit our website:

[russellinvestments.com.au/cornerstone](http://russellinvestments.com.au/cornerstone) or

contact your Invest Blue representative: 1300 346 837

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